

DRAFT Financing Chapter: November 6, 2008

Introduction

Puget Sound provides direct economic benefits of more than \$3.5 billion per year to the regional economy, including \$100 million per year in fishing and shellfish revenues, \$3 billion per year from regional tourism and \$490 million per year from boating¹.

The Sound is also an important attraction to the 135,000 companies providing more than 2 million jobs in the region. Polls consistently show that the quality of the environment is an important factor in maintaining the region's economic growth, which outpaces three-fourths of the nation's metropolitan areas.² The billions of dollars in property values for the 2,500 miles of Puget Sound shoreline attest to the real value people place on this resource. There is clearly a lot at stake in maintaining the health of Puget Sound.

The direct out-of-pocket costs of allowing the Sound to continue to deteriorate include:

- Endangered Species Act designation of many more species that are currently in decline, with significant increases in recovery and permitting costs;
- Chronic water quality problems, such as untreated stormwater discharges triggering expensive cleanup and compliance requirements; and
- Substantial cost increases for dwindling water supplies and more expensive wastewater treatment, stormwater management, and flood protection facilities.

Juxtapose this with the economic benefits of a well-executed cleanup and restoration program. First, the economic sectors that feed off the health of the Sound, including tourism, recreation, commercial and tribal fishing, are likely to grow. In addition, most of the money invested in cleanup and restoration projects will flow directly to local economies, where it will support family-wage jobs in construction, restoration design, land management, and green farming and forestry practices. Studies show that each dollar spent on local construction projects has a ripple effect in local economies, driving \$1.50 and \$2.50 in secondary spending on materials and services.

Therefore, while the costs of cleaning up and restoring the Sound will be substantial, they should be compared to the far greater costs of delay and the economic benefits of a thriving Puget Sound.

¹ Washington Department of Ecology. 2008. Focus on Puget Sound.

² Bureau of Economic Analysis. 2008. GDP by Metropolitan Area for 2006 and Revised 2004-2005.

The Financing Approach

The scope and complexity of the work required to reach our 2020 Puget Sound recovery goals requires actions be undertaken incrementally, strategically and comprehensively. The Action Agenda will be adaptively managed with incremental changes in actions based on their cost and effectiveness. The Action Agenda is also strategic, picking actions that align with strategic priorities.

The finance strategy is also built around the same incremental and strategic approach. Funding sources will be expanded as actions are proved and important building blocks are completed. It will also be strategic, ensuring that every dollar, existing and new, is spent to full advantage. Existing funding sources have been screened and evaluated for degree of support to the Action Agenda. The Partnership has also begun to work collaboratively with the agencies that control existing funding programs to ensure that public and private money is optimally aligned to support the Action Agenda. The Partnership has also identified potential new sources of funding, such as enhancements to public loan programs and incentives that leverage maximum environmental benefit and non-traditional sources of funding.

An incremental, strategic approach will ultimately lead to a comprehensive finance strategy that will encompass traditional and non-traditional resources to fully implement all of the actions necessary to reach our 2020 Puget Sound recovery goals.

How Much Will Our Actions Cost?

The Action Agenda recommends several types of actions, including: capital projects; regulatory programs and adjustments; incentives; scientific research, and education and outreach programs. Methods for calculating the costs for each of these actions vary. Some actions, such as estuary restoration projects, have detailed cost estimates already prepared. Similarly, if an action involves an adjustment to an existing program, such as the acceleration of shoreline planning, good cost estimates are available. Other actions, however, do not have detailed cost estimates prepared. In those cases, unit costs of similar work or other methods were used to provide an initial estimate.

Initial cost estimates for implementing essential actions in the 2009-2011 biennium range between \$200 million and \$300 million. This estimate covers the cost of additions or adjustments to existing projects or programs as well as new actions. It does not include the cost of existing programs that are already being implemented.

The estimate will be refined after the draft Action Agenda has been reviewed and after the Leadership Council has provided direction on priority actions for initial

implementation. The cost for implementing the Action Agenda would be shared across state, federal and local governments.

Given that one of the core strategies of the Action Agenda is to continually evaluate program effectiveness and make needed adjustments, the total cost of implementing the Action Agenda through 2020 cannot be calculated. Estimates of required actions will be produced on an ongoing basis.

Existing Spending on Cleanup and Recovery

Existing Puget Sound funding can be divided into three categories. The first is spending that is specifically for Puget Sound cleanup and recovery activities. Those funds can be readily refocused to Action Agenda priorities. The funding for the operation of the Puget Sound Partnership and the 2008 EPA funding for Puget Sound cleanup is a good example of this category. Moving forward, funding in this category should be focused on implementation of priority actions.

The second category is composed of spending that is specifically for Puget Sound cleanup and recovery, but which is spent by an agency other than the Partnership and may be constrained by law for specific purposes. For example, spending on wastewater treatment cannot readily be spent on other activities. This funding should be aligned to the greatest extent possible with the priorities in the Action Agenda. This may involve modifying laws and policies of state, federal and local governments.

The final category is composed of spending that is not directed at Puget Sound but could benefit Puget Sound cleanup and recovery efforts if properly focused. This spending covers activities such as road maintenance, construction site monitoring, and forest road decommissioning. The Partnership will work to identify all of this type of funding and develop technical assistance, education and incentive programs to help focus the associated work in ways that are beneficial to the Sound.

Category 1 Spending Levels: Currently, the first category includes \$60 million per year of spending directly on priorities of the Action Agenda. The major sources include:

Federal	State	Local
<ul style="list-style-type: none"> • EPA Puget Sound appropriations • COE Puget Sound and Adjacent Waters • COE Puget Sound Nearshore Ecosystem Restoration programs • Portions of the NOAA Pacific Coastal Salmon Recovery Fund • Portions of USFWS Cooperative Endangered Species Conservation Fund and other grant programs 	<ul style="list-style-type: none"> • Partnership operations • Specific ongoing programs for Puget Sound • Portions of the State Revolving Fund and Public Works Trust Fund programs • Portions of the state match for the Pacific Coastal Salmon Recovery Fund • Portions of the Washington Wildlife and Recreation Program, aquatic Lands Enhancement Account grants and numerous other grant 	<ul style="list-style-type: none"> • Portions of discretionary local match for state and federal grant programs • Portions of discretionary local funding for habitat, stormwater, water quality, and other environmental projects

Category 2 Spending Levels: Approximately \$150 million a year in this category is currently spent on actions focused on Puget Sound recovery. They include:

Federal	State	Local
<ul style="list-style-type: none"> • Toxics and hazardous waste cleanup programs at federal facilities • Wastewater improvements to federal facilities • Forest road decommissioning and fish passage barrier removal efforts on USFS Lands 	<ul style="list-style-type: none"> • Specific ongoing programs by state agencies impacting Puget Sound • The State Revolving Fund and Public Works Trust Fund programs 	<ul style="list-style-type: none"> • Local funding for habitat, stormwater, water quality, and other environmental projects

Category 3 Spending Levels: The total amount of spending that benefits Puget Sound in this category is uncertain given that the benefits are relatively indirect.

Addressing the Gap

There is both a short-term and long-term gap in additional funding needed to implement the Action Agenda. The Partnership will focus on the following sources to address the short-term gap for the 2009-2011 biennium:

- Utilization of \$30 million to \$40 million in Model Toxics Control Account (MTCA) cash (one-time from fund balance)
- \$10 million in 2010-11 from competitive state and federal grant sources
- \$10 million to \$20 million per year from federal appropriations to the Partnership
- \$15 million per year in local government match
- \$100-150 million per year from state general obligation bond appropriations to the Partnership

This strategy, if fully successful, will result in estimated investments of \$150 million to \$200 million per year in the 2009-11 biennium.

Several new funding sources are being considered to address long-term needs:

- Develop options to leverage infrastructure loan programs to increase available funding and to help distressed communities implement priority projects;
- Expand the use of water quality trading;
- Develop and implement ecosystem service markets to redirect existing and new spending toward more environmentally beneficial and cost-effective compliance and mitigation projects that also fulfill Action Agenda priorities;
- Establish a Puget Sound-wide improvement district to generate and distribute revenue to Action Agenda priorities;
- Establish a dedicated state revenue source to provide a sustained source of funding for Action Agenda projects and programs; and
- Increase federal support for cleanup and restoration through a federal designation of Puget Sound under the Great Waters program, including a specific federal authorization for funding for Puget Sound.

Expanding the Use of Ecosystem Service Markets

Ecosystem service markets are institutions that allow the exchange of environmental credits among buyers and sellers. Most are driven by regulatory requirements, such as mitigation or water quality compliance, and most buyers are developers, industries, or utilities that need credits to address permitting requirements. Many are set up under “cap-and-trade” regulations, which cap pollutants but allow permittees to acquire credits to address their requirements. Sellers include mitigation bankers, conservation organizations, entrepreneurs, and government agencies that agree to produce credits through restoration or cleanup projects.

Ecosystem service markets are evolving rapidly worldwide, driven largely by cap-and-trade approaches to the reduction of greenhouse gas emissions. The financing strategy for the Action Agenda includes two market approaches: 1) the creation of an in-lieu-fee mitigation program; and 2) further development of a water quality trading framework. Initial implementation steps for these programs involve the development of the trading platform, crediting protocols and project implementation strategies.

Roles and Responsibilities

The success of the funding strategy depends on the coordinated action of many individuals, agencies and organizations. The following is a description of the major roles for public and private partners:

Federal Government

- All agencies should identify budget priorities in consultation with the Partnership and seek funding for priority Action Agenda items in the annual appropriations process.
- The Environmental Protection Agency should continue to allocate federal Puget Sound funds in accord with Action Agenda priorities and in consultation with the Partnership.
- Federal grant-making agencies, including the U.S. Fish and Wildlife Service and U.S. Army Corps of Engineers, should consult the Partnership on priorities for grant funding.
- Federal agencies with capital project responsibilities, including the Federal Highway Administration, should use the Puget Sound in-lieu-fee mitigation program to fulfill mitigation needs.
- EPA should support and help fund the creation of water quality trading policy and programs in the Puget Sound region.
- The Corps of Engineers should support the creation of the in-lieu-fee mitigation program.

State Government

- Per existing law, all agencies should identify budget priorities in consultation with the Partnership and seek funding for priority Action Agenda items in the biannual appropriations process.
- State grant-making agencies, including the Salmon Recovery Funding Board, the Department of Ecology and the Recreation and Conservation Office, should consult the Partnership and integrate Action Agenda priorities into grant funding.
- The Partnership should: take the lead in coordinating the implementation of the funding strategy; track progress on achieving funding goals; and modify the strategy as needed to improve performance.
- The Department of Ecology, working with the Partnership and other stakeholders, should create a water quality trading framework and policies, as well as the development of the in-lieu-fee mitigation program.
- State agencies with capital project responsibilities, including the Department of Transportation, should use the Puget Sound in-lieu-fee mitigation program to fulfill mitigation needs.

Local Government

- County and city governments should support the design and establishment of a Puget Sound improvement district to collect and distribute funding for Action Agenda priorities.
- County and city governments, working with salmon and watershed recovery groups, should prioritize Action Agenda projects in local capital improvement and grant programs.
- County and city governments should modify policies and regulations as needed to support the regional in-lieu-fee and water quality trading programs.
- County and city governments should support Action Agenda priorities in state and federal budget processes.

Private Sector

- Environmental and community groups should support Action Agenda priorities in local, state and federal appropriations processes.
- Environmental groups and land trusts should continue providing private funding for conservation and restoration projects consistent with the Action Agenda.
- Private landowners should continue to take actions on their property that are consistent with Action Agenda priorities.

- The private development community should help develop in the in-lieu-fee and water quality trading programs and should participate actively in the programs once established.